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IN THIS ISSUE:

Financial Markets Tumble In Tokyo 1

Mergers In Japan Rise 4

Tighter Labor Market Worries Wage Negotiators 5

Diplomacy Continues On Northern Territories 7

Japan's Ex-Im Bank Contemplating Lending To U.S. States 9

Notes: Joint Industrial Cooperation Initiative 10

Financial Markets Tumble In Tokyo

For those who seem to live and die by the direction of a line on a chart, the news was disheartening, to say the least. The lines describing bond and stock markets in Japan and the value of the yen took uncharacteristically simultaneous turns downward during the first three weeks of 1990. While each market individually has had periods of weakness in recent months, many analysts thought the triple retreat an odd way to begin a decade in which many experts say Japan will solidify the economic gains made in previous years and emerge as an ever more important player in the global economy.

Subsequent events provided fresh evidence that Japan's financial clout already is considerable. Worried traders in the United States and Europe, fearful that something was amiss in Tokyo, pushed down prices on financial markets in New York and elsewhere. Did the latest Tokyo downturn provide evidence that Japan's economic juggernaut had run out of steam?

Mergers In Japan Rise

Domestic mergers and acquisitions have risen for three straight years in Japan notwithstanding the popular sentiment that conducting a merger or acquisition there is more difficult than in the United States or Europe. Rapidly growing Japanese M&A activities overseas combined with increasing criticism of Japan's merger market are causing gradual changes in Japanese attitudes toward the buying and selling of companies.

According to data collected by Yamaichi Securities Co., Ltd., the total number of mergers and acquisitions announced by Japanese firms rose 19.1 percent in 1989 to 661 (see Table). Leading the way were Japanese purchases of foreign firms, rising from 315 in 1988 to 404 last year, up 28.3 percent. Mergers and acquisitions between Japanese firms rose 7.6 percent, from 223 to 240, while foreign purchases of Japanese companies fell from 19 to 17.

Japanese Merger and Acquisition Announcements, 1984-89

(number of announced transactions)

	1984	1985	1986	1987	1988	1989
Japanese Purchases of Japanese Firms	140	163	226	219	223	240
Japanese Purchases of Foreign Firms	44	100	204	228	315	404
Foreign Purchases of Japanese Firms	6	26	21	22	19	17
Total	190	289	451	469	557	661

Source: Yamaichi Securities Co., Ltd.

Figures compiled on a different basis by Japan's Fair Trade Commission show a similar trend, with the number of mergers among domestic firms rising from 1,223 in fiscal 1987 to 1,336 in the year ending March 31, 1989. While the FTC's annual report to the Diet attributed much of the activity to restructuring by Japanese corporations, diversification into new fields backed by strong profits aided the growth of mergers.

The upturn in domestic M&A activity reflects a significant change in Japanese business attitudes. A survey released last October by an advisory body of the Ministry of International Trade and Industry indicated that about 16 percent of the 1,000 firms contacted had launched a merger or acquisition bid within the last two years. Another 6 percent were considering such a move. Of those that attempted a merger, 76 percent viewed it as a positive business strategy; 11.5 percent of this same group said they would attempt another bid under any circumstances, and an additional 58.6 percent said they would be willing to take the risk if the deal made enough economic sense. The survey showed near unanimous rejection of M&A if the purpose of the bid is merely to make money. Such "insincere" bids still brand the participants as a "hijacker" or a "seller of one's body" (the literal translation of the traditional Japanese terms for takeover and divestiture).

Most Japanese mergers and acquisitions still are labeled as "friendly," even though a growing number of transactions initially are hostile. Indeed, only struggling Japanese firms welcome an unsolicited bid. A Japanese takeover bid remains a bilateral affair. Unlike the U.S. version, where brokers put a company "in play" hoping to attract several bids, in Japan it is still unheard of for two or more bidders to pursue a single target. Moreover, the emphasis in Japan is on mergers, not acquisitions, although the practical differences between the two are insignificant. Japanese M&A brokers therefore consider their role more akin to matchmaking than money-making. Nevertheless, the field is attracting both foreign and domestic firms, raising the level of competition and aggressiveness.

At the second session of the Structural Impediments Initiative talks in November, the U.S. side reportedly offered a multipoint plan to change many Japanese business practices that American government and industry officials feel impede M&A activity in Japan. Many of the ideas target the practice of cross-stockholding -- the placement of a majority of a firm's stock with friendly investors, often close business associates. Cross-stockholding makes it difficult, if not impossible, for a new investor to gain control of a takeover target. Other SII talking points addressed the decided Japanese bias against shareholder rights. As several recent cases show, the management of a Japanese firm can ignore the wishes of even the firm's largest shareholder. Koito Manufacturing Co., Ltd., for example, continues to rebuff overtures from T. Boone Pickens, despite his 20 percent-plus stake. And Chujitsuya Co., Ltd. and Inageya Co., Ltd. still are resisting efforts of top shareholder Shuwa Corp. to merge the two department store chains with two others.

The Japanese SII delegation reportedly did not respond to the American suggestions. Although it is too early to tell if the ongoing SII talks will yield any results in this area, the Ministry of Finance already has taken some steps to address complaints. MOF plans to drop prior notification requirements for takeover bids and extend the bid period from 30 days to 60 days. MOF claims that the new rules are very similar to U.S. rules. The new regulations would have a broader impact, however, since MOF also proposes to lower the threshhold at which the notification rules for stock purchases come into play from 10 percent to 5 percent of a firm's outstanding shares. Observers on both sides of the Pacific doubt that MOF's action will alleviate foreign pressures for changes in Japan's domestic M&A market, particularly since the market is heating up.

Jon Choy

Tighter Labor Market Worries Wage Negotiators

The current economic boom, which has benefited all Japanese industries over the past two years, now is producing a new concern for business executives as the season for wage negotiations approaches. With the tight labor markets brought about by economic expansion, labor unions feel quite confident of being able to win a considerable increase in monthly wages during the annual spring wage negotiations scheduled to start in early April. Business officials, however, are concerned that any wage hike higher than the growth in labor productivity will add to the costs of their products or services and thus end up